July 15, 2003

SENT VIA E-MAIL

Chairman William D. McCarty
Indiana Utility Regulatory Commission
302 W. Washington Street
Room E306
Indianapolis, IN 46204

Re: Proposed Rulemaking on Net Metering, Draft 1

Dear Chairman McCarty:

In response to the Indiana Utility Regulatory Commission's Proposed Rulemaking on Net Metering, Draft 1, please find the attached joint response from the Northern Indiana Public Service Company ("NIPSCO") and NiSource Inc.

NIPSCO and NiSource appreciate the opportunity to provide informal comments to this draft rule. NIPSCO and NiSource recognize and appreciate the limited thresholds contained in this proposed rulemaking, but we hope that this process and the program will continue to expand as the industry learns more regarding net metering. As the consideration of this proposed rulemaking proceeds, NIPSCO and NiSource look forward to participating and commenting further.

Sincerely,

/s/ Timothy R. Caister

Timothy R. Caister
Regulatory & Government Policy – Indiana

Enclosure

COMMENTS OF
NORTHERN INDIANA PUBLIC SERVICE COMPANY & NISOURCE INC. TO THE IURC'S JUNE 13, 2003, PROPOSED RULEMAKING ON NET METERING

170 IAC X-1 Definitions

- In regard to Section (d) of the proposed definitions, NIPSCO and NiSource comment that an eligible net metering customer, for purposes of this rule, should be one that is currently and remains in good standing with the electric utility. For example, if a customer of an electric utility is or enters into an arrears situation, then that customer should not be eligible for the net metering program until such credit issues are resolved. The electric utility should not be crediting a customer's account with any net metering activity when the customer is unable to pay for the services rendered by the electric utility. Therefore, NIPSCO and NiSource suggest an inserted phrase where an "'eligible net metering customer' means a customer in good standing that owns and operates a…"

- Under Section (g) of the proposed rule, the term "electric" seems to be omitted prior to modifying "utility" in the last line.

- As to Section (h) of the proposed rule, NIPSCO and NiSource understand the inclusion of water or wind electric production along with solar; however, there are clean and efficient electric production facilities and technologies that have not been recognized for purposes of this rule. For example, there is no mention of landfill gas-related facilities, or combined heat and power facilities using micro turbines, fuel cells or engine driven generation technology capable of producing both electricity and other useful energy (e.g., heating, cooling and process steam). These emerging technologies, which achieve high levels of energy efficiency while minimizing emissions, are relevant to the consideration of net metering as much as water, wind or solar, and should be considered.

- In addition, NIPSCO and NiSource suggest that the IURC consider endorsing certain electric production facilities as "green" for green power purposes. The proposed rulemaking may be one opportunity where the IURC can address those facilities that are defined for green power programs. For example, micro turbines may not be endorsed for green power programs, but are net metering facilities included in the definitions of this proposed rulemaking. Conversely, wind and water production facilities would be eligible as a net metering facility, and also endorsed as a green power facility.

170 IAC X-2 Applicability

- No comments at this time.

170 IAC X-3 Exemption

- No comments at this time.

170 IAC X-4 Availability

- Under Section 4(a), NIPSCO and NiSource suggest that the IURC clarify that the 0.1% limitation applies to the "most recent summer peak aggregate load of the electric utility." The insertion of "aggregate" and "electric" clarify that the total system peak aggregate load of the electric utility should be used, not the individual customer's peak load from the previous summer.

170 IAC X-5 Interconnection

- In order to effectuate the provisions under Section 8 of the proposed rule, NIPSCO and NiSource suggest that Section 5(c) require proof of liability insurance to the electric utility before interconnection occurs. For example, a sentence could be inserted in Section 5(c) as follows: "The eligible net metering customer shall provide electric utility with proof of insurance necessary to meet the requirements under Section 8 of this rule."

- Under typical UL standards, they cover how to manufacture and test electrical equipment for proper and safe use by an end user. Unless the complete installation procedures are covered in the manufacturer's instructions, and therefore subject to UL scrutiny, portions of the installation will be under the jurisdiction of the code enforcement authority of the local community. Although UL 1741 and the IEEE standards 929 and P1547 are similar in many ways, NIPSCO and NiSource would recommend to the IURC that the generator installations meet these requirements as well, where they are pertinent. The IEEE standards typically address the entire installation process.

- In regard to Section (c) covering the licensed electrician, UL 1741 allows for overcurrent protection to be outside its scope, and provided by others at the time of installation. In this case, this portion of the installation will be subject to IEC/NEC (Indiana/National Electrical Codes). The local code enforcement offices will have jurisdiction over these installations. The approval of any such existing officials should be required, and in these cases, would assure the credentials of the licensed electrical contractor.

- For this level of generation size (10kW or less), the requirements of UL 1741 are sufficient for the generator. However, the intent of the term "additional controls" is not completely clear. If "controls" are to mean system monitoring and relay functionality, then UL 1741 will be sufficient. However, other service entrance related issues are not be covered by UL 1741. For instance, NIPSCO currently requires a readily accessible, visible break, disconnect switch at the point of common coupling. This is a safety precaution required to eliminate the potential

of back feed when our work crews are servicing a circuit. UL 1741 does not address this issue, as it typically is not integral with the generating unit, as manufactured. NIPSCO and NiSource would recommend a requirement of this basic safety component in our interconnection agreements.

- Under Section (d)(2), it is important to note that IEEE standard P1547 proposes "commissioning tests" to be performed before initial parallel operation. If an electric utility wished to perform such a test, without charge to the customer, it is not clear from the proposed rule that the electric utility would be allowed. This is important in the case of generating units with field adjustable trip points, and the need to verify these field settings before interconnection.

- Under Section (e) where the "eligible net metering customer shall install, operate, and maintain the net metering facility in accordance with the manufacturer's suggested practices for safe, efficient, and reliable operation," NIPSCO and NiSource are unclear as to who will audit the manufacturer's suggested practices/instructions to ensure they are being followed?

170 IAC X-6 Metering

- As previously commented by NIPSCO and NiSource on March 1, 2002, there is a defined cost for installing additional metering facilities necessary to accommodate a customer's request to participate in any net metering program. To not allow for direct allocation of these actual fixed costs to the net metering customer would be to subsidize the net metering customer. If the IURC desires to authorize such subsidy, then a mechanism to recover it from other customers should be established for the applicable electric utility. Similar to a Demand Side Management rider or other mechanism, this is a policy decision of whether to recover the designated stranded cost from the remaining customer base. In essence, the electric utility's cost of service is not designed to compensate it for the additional facilities. This is one of the fundamental premises behind the excess facilities provisions of 170 IAC 4-1-27(C). In fact, in a net metering scenario, the estimated total revenue actually decreases, and contributes to the need for an allocation of cost to the net metering customer. NIPSCO and NiSource reiterate that a monthly service charge or other similar mechanism (e.g., excess facilities charge or a guaranteed revenue contract) will establish the proper pricing signal and the true cost of providing net metering will be reflected in the charges paid by a net metering customer.

170 IAC X-7 Billing

- Under Section (1) of the proposed rule, the term "electric" seems to be omitted prior to modifying "utility" in the first line.

- Under Section (2) of the proposed rule, the term "electric" seems to be omitted prior to modifying "utility" in the first line.

- Under Section (2) of the proposed rule, the key term for discussion is "electricity." The proposed rule states that the electric utility…

> shall measure the difference between the amount of electricity delivered by the utility to the eligible net metering customer and the amount of electricity generated by the eligible net metering customer and delivered to the utility during the billing period… (emphasis added).

"Electricity" is the key term for discussion because this is the only commodity or service that is (1) measured by the applicable metering devices and (2) supplied to the electric utility. Conversely, the eligible net metering customer does not provide transmission, distribution, ancillary or any other cost of service element other than the commodity. For this reason, the proposed rule fails to recognize the true value of what the eligible net metering customer provides when it is a net generator – electricity only.

As NIPSCO and NiSource stated in its March 1, 2002, comments, a net generator should be allowed to recognize the value of the electricity that it provides to the utility, but only at the cost of that commodity. This is the proper pricing signal. NIPSCO and NiSource appreciate the IURC's proposed rule insofar as it allows the eligible net metering customer to recognize value of the electricity provided by banking the power month-to-month; however, this still represents a concern when that excess electricity is valued at the electric utility's fully embedded rates and charges.

In addition, NIPSCO and NiSource are concerned that under Section 7(a)(2), an eligible net metering customer would be able to credit any generation against the minimum monthly charge or customer charge. At a minimum, a customer should be responsible for paying the minimum customer charge since this is associated to some extent with the facilities required to serve that customer regardless of net metering (e.g., basic metering facilities). As mentioned above, there is a need to have some minimum cost allocation to the customer in order to recognize the necessary facilities to measure the flow of electricity. The minimum charges contained in the electric utility's rate schedules serve as the bare minimum for such allocation.

To be clear, NIPSCO and NiSource are not concerned about the ability of eligible net metering customers to have the opportunity to offset all or part of the electricity requirements from the host electric utility. Particularly, NIPSCO and NiSource are concerned about the pricing of the electricity to extent the eligible net metering customer becomes a net generator. As previously stated by NIPSCO and NiSource in our March 1, 2002, comments, there is a ceiling level beyond which, the electricity should only be valued by the market for that commodity depending upon the time of day and year. This premise is currently recognized in

the IURC's regulations for calculating the avoided cost rate for the electric utilities when they must purchase power from a qualifying facility. The Commission has previously recognized that there is, at a minimum, a seasonal difference for the value of the commodity.

As an alternative to the above concern, NIPSCO and NiSource suggest that the IURC consider a market-based valuation of the electricity from month-to-month. An alternative to a market-based valuation would be to continue using the electric utility's avoided cost rate. Therefore, when an eligible net metering customer becomes a net generator in any given month, the customer recognizes the true value of the power on a timely basis. NIPSCO and NiSource favor a rulemaking that provides for this valuation, and also provides for the ability of the electric utility to compensate the customer when it becomes a net generator. This is the proper pricing signal.

Nonetheless, NIPSCO and NiSource note that this valuation and compensation should only occur under the above conditions. In other words, the program should be implemented on a pilot basis and the conditions proposed by the IURC in Section (1)(d) should be maintained.

170 IAC X-8 Liability and Indemnity

- Under Section 8(b), NIPSCO and NiSource suggest that the IURC clarify in the indemnity language that the electric utility shall not be held responsible for noise and/or local community or neighbor complaints arising from the operation of such generating facility.

- NIPSCO and NiSource also recognize that customers change insurance policies over time. Therefore, under Section 8(a), the rule should observe this contingency by requiring the customer to provide the updated insurance information to the electric utility within 30 days if the customer changes carriers or modifies material provisions to the insurance policy.

170 IAC X-9 Standard Offer and Reporting Requirements

- No comments at this time.

170 IAC X-10 Customer Complaints

- No comments at this time.